

Message Text

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ACTION ARA-17

INFO OCT-01 ADP-00 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 H-02 L-03 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 PA-03 PRS-01 USIA-12 AGR-20 RSR-01 /168 W

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R 182018 Z JUN 73

FM AMEMBASSY TEGUCIGALPA

TO SECSTATE WASHDC 4596

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

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GUATEMALA ALSO FOR ROCAP

E. O. 11652: N/ A

TAGS: EFIN HO INF

SUBJ: IMF STANDBY AGREEMENT

REF: TEGUCIGALPA 2118

1. SUMMARY: IMF WILL NOT REPEAT NOT MAINTAIN PERMANENT REPRESENTATIVE AT CENTRAL BANK. CURRENT SITUATION SATISFACTORY IN SHORT- TERM BUT SOME UNCERTAINTY AS TO ACTUAL DEVELOPMENTS LATER DURING YEAR. END SUMMARY.

2. AS REPORTED REFTEL, GOH HAS DECIDED NOT REPEAT NOT TO RENEW IMF STANDBY AGREEMENT BUT RATHER TO NEGOTIATE NEW AGREEMENT AT END OF YEAR TO COVER FY 1974. ACCORDING TO IMF REPRESENTATIVE, GOH HAS ALSO DECIDED NOT REPEAT NOT TO MAINTAIN RESIDENT IMF REPRESENTATIVE AS HAS BEEN DONE DURING THE LAST THREE YEARS. DECISION NOT TO RENEW RESIDENT
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REPRESENTATIVE WAS APPARENTLY TAKEN AT CABINET LEVEL.

3. IMF MISSION HAS LEFT AND WILL RETURN TOWARD END OF YEAR FOR NEGOTIATIONS ON NEW STANDBY. MISSION'S ASSESSMENT WAS THAT IN SHORT- TERM, ECONOMIC SITUATION WAS SATISFACTORY. NET FOREIGN EXCHANGE RESERVES OF CENTRAL BANK AT END OF MAY WERE \$44 MILLION COMPARED TO \$36.7 MILLION LAST YEAR. CURRENT REVENUES RUNNING SLIGHTLY ABOVE ESTIMATES AND EXPENDITURES BEING HELD UNDER CONTROL. MISSION CONCERNED, HOWEVER, THAT PRESENT SATISFACTORY SITUATION MAY BE DUE TO SHORT- TERM FACTORS WHICH MIGHT CHANGE LATER ON IN YEAR. PARTICULARLY, MISSION WAS CONCERNED: INFLATIONARY IMPACT OF EVER INCREASING IMPORT PRICES OF BASIC COMMODITIES AND INCREASED DOMESTIC PRICES; WHETHER STRONG EXPORT SURGE FIRST QUARTER (EXPORTS UP 50 PERCENT OVER 1972 LEVEL) COULD BE KEPT UP IN VIEW TAPERING OFF COFFEE EXPORTS, MEAT AND RECENT DAMAGE BANANA FIELDS; WHETHER CURRENT BUILDUP FOREIGN EXCHANGE RESERVES COULD BE RESULT OF SPECIAL SHORT- TERM CAPITAL INFLOW WHICH MIGHT BE REVERSED LATER ON; WHETHER UPSURGE IN CENTRAL GOVERNMENT INVESTMENTS WILL BRING PRESSURE ON FOREIGN EXCHANGE RESERVES AND ON GOVERNMENT FINANCES.

4. COMMENT: UNSPOKEN CONCERN OF IMF MISSION WAS NOW THAT GOH HAS NO REPEAT NO LEGAL COMMITMENT TO ADHERE MONETARY AND FISCAL POLICIES AGREED TO UNDER PREVIOUS STANDBY, WHETHER GOH WOULD CONTROL SPENDING IN FACE MOUNTING INDICATIONS INCREASED DEMAND FOR AVAILABLE RESOURCES. INA HAS ALREADY RECEIVED L 1.5 MILLION EXTRA BUDGETARY ASSISTANCE NOT IN APPROVED BUDGET AND IS ASKING FOR MORE MONEY. OTHER MINISTRIES MAY ALSO STEP UP THEIR DEMANDS.
SANCHEZ

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*** Current Classification *** LIMITED OFFICIAL USE

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MANAGUA
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